



Department of Health Care Services  
**MEMORANDUM**

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Date: April 24, 2009

To: Mike Nguyen  
Deputy Director  
Information Technology Services  
1615 Capitol Avenue, MS 6000

From: Thomas J. Rakela, C.F.E., Chief *Thomas J. Rakela*  
Internal Audits  
1500 Capitol Avenue, MS 2001  
(916) 445-0759

Subject: Final Report for Information Technology Services Division (08625)

Internal Audits has completed its review and evaluation of the contract monitoring procedures at the Information Technology Services Division's Administration Section. The Findings and Recommendations, Information Technology Services Division's response and Internal Audits' comments pertinent to the response are contained in the accompanying report.

As part of its operating responsibilities, Internal Audits is responsible for follow-up on audit recommendations. Therefore, please submit a status report on the implementation of the recommendations within 30 days from the date of this letter. The status report should include a plan of corrective action, implementation dates of those actions, and the individuals responsible for implementation. Necessity for further follow-up will be determined after review of the status report.

We appreciate the hospitality and cooperation extended by the Information Technology Services Division, and hope that the recommendations will benefit your future operations.

If you have any questions, please call me at 650-0272.

Attachment

cc: Ruben Jimenez  
Staff Services Manager I  
Information Technology Services  
1615 Capitol Avenue, MS 6000

# DEPARTMENT OF HEALTH CARE SERVICES

## I N T E R N A L A U D I T S

### **Review of the Department's Information Technology Services Division's Contract Monitoring Internal Control Structure**

*November 2008*



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## **EXECUTIVE SUMMARY**

## EXECUTIVE SUMMARY

Internal Audits has completed its review of the Department of Health Care Services' (Department) Information Technology Services Division (ITSD) contract monitoring process. Internal Audits conducted a preliminary survey and ranked the Department's contracting systems in order to establish an ongoing review of these systems.

Overall, the ITSD's Administration Section exhibits strong program monitoring and fiscal management of its contractors and the Division's procurement processes. The prior Contract Exemption Reviews #05315 and #07517 identified the following:

- ITSD's Administration Section did not have current procedure manuals.
- CMAS vendor agreements did not include a Conflict of Interest Statement in the Department's standard language for HIPPA compliance.
- ITSD's Administration Section did not reconcile its reimbursement contracts to the CALSTARS Online Reporting Environment (CORE).

ITSD has addressed these findings and has taken steps to improve the program's monitoring activities. ITSD's Administration Section has updated and is using procedure manuals to perform the necessary tasks and has included the required language for HIPPA compliance in all CMAS vendor agreements. The section is in the process of reconciling the reimbursement contracts since the California Department of Health Services split into two separate Departments in July 2007; Department of Health Care Services and California Department Public Health. The progress is dependent on the ongoing processes of establishing separate infrastructures for each Department. However, Internal Audits identified two findings in the processing of invoices that were noted during this review.

- A large number of invoices were not date stamped on the day they were received or at all. Additionally, there were a large number of invoices that had been processed late.
- No reconciliations are being performed for payment of invoices by ITSD's Administration Section between the Departments internal spreadsheets and CALSTARS.

ITSD's Administration Section was presented with the findings and is in the process of establishing additional internal controls over the invoice processes based on the recommendations in this report.

## **AUDITOR'S OPINION**

## AUDITOR'S OPINION

Internal Audits has made a study and evaluation of the accounting and administrative controls of the Information Technology Services Division's (ITSD) Contract Monitoring System in effect as of November 18, 2008. Our study and evaluation was conducted in accordance with the Standards for the Professional Practice of Internal Auditing issued by the Institute of Internal Auditors, and included the audit tests we considered necessary in determining that accounting and administrative controls are in place and operative.


ITSD's management is responsible for establishing and maintaining adequate internal controls. This responsibility, in accordance with Government Code, § 13402 et seq., includes documenting internal controls, communicating requirements to employees, and assuring that internal controls are functioning as prescribed. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of control procedures.

The objectives of the accounting and administrative controls are to provide management with reasonable, but not absolute, assurance that:

- Assets are safeguarded against loss from unauthorized use or disposition.
- Transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of reliable financial statements.
- Financial operations are conducted in accordance with policies and procedures established in the State Administrative Manual.

In our opinion, the system of contract monitoring controls at ITSD as of November 18, 2008, taken as a whole, was sufficient to meet the objectives stated above. Therefore, an unqualified opinion is rendered.

As a result of changing conditions and the degree of compliance with procedures, the effectiveness of controls change over time. Specific limitations that may hinder the effectiveness of an otherwise adequate system of controls include, but are not limited to: resource constraints, faulty judgments, unintentional errors, circumvention by collusion, and management overrides. Establishing controls that would prevent all these limitations would not be cost effective; moreover, an audit may not always detect these limitations.

  
Thomas J. Rakela, C.F.E., Chief  
Internal Audits

## **BACKGROUND**



## **BACKGROUND**

The Information Technology Services Division (ITSD) provides or coordinates the acquisition of the full range of Information Technology (IT) services. This includes the development, production, and maintenance of automated IT systems. It is also responsible for departmental compliance with the Department of Finance (DOF) requirements related to IT as defined by the State Administrative Manual. Specific reporting requirements from DOF and/or the Department of General Services must be completed prior to procurement of IT services, software, or hardware.

ITSD operates on a cost reimbursement basis. The total IT resources available are annually allocated to departmental programs. This allocation process, which involves the Deputy Directors, Budget Office, and Executive Staff, is based on needs as defined by programs. Additional IT resources may be secured through the Budget Change Proposal (BCP) process. ITSD has the responsibility to assist and coordinate these processes with departmental programs. DOF requires that our Department's Information Management Annual Plan include a project for each BCP associated in any way with IT, or the BCP will be rejected.

## **FINDINGS AND RECOMMENDATIONS**

## FINDINGS AND RECOMMENDATIONS

### PROCESSING OF INVOICES

#### **Finding 1**    Date Stamping and Late Processing of Invoices.

**Condition**        In verifying that payments for purchases were accurate, processed and recorded promptly, a large number of invoices were not date stamped when received. It was determined through interviews with staff that some of the vendors work on the premises and take the invoices to the project manager for approval to speed up the processes for payment. Additionally, with the split of the California Department of Health Services in July 2007 into Department of Health Care Services (Department) and California Department of Public Health, staff workload has increased which has prevented the invoices from being processed in a timely manner or stamped on the day received. The invoices reviewed revealed inaccuracies in the contract logs and large lapses of time between the dates recorded as sent for approval by the Project Manager and the invoice date to Accounting. It was difficult to determine the exact amount of time that lapsed due to the inaccuracies of data entered into the contract logs and the lack of a date stamp when the invoice was received. Therefore, the numbers of invoices that are processed fluctuate resulting in longer reimbursement time periods and the possibility of late fees being incurred.

An additional factor for late payments was in relation to the cash flow problems in the Department's Accounting Department. As explained in interviews with management, the Department begins to encounter a cash flow problem towards the end of each fiscal year. That is when the available cash is so low that bills cannot be paid. As reimbursements are collected, they are deposited which increases the cash available to pay bills. The scheduling of invoices continues as usual; however, they are put on hold until cash is collected. Once cash is available, Accounting will release claim schedules up to that amount and then hold the remaining schedules. The invoices on hold are incurring late payment penalties as they wait to be released. Prior to the Departmental split, the Department would run into this problem in April or May. However, since the split the Information Technology Services Division (ITSD) has encountered this problem as early as January of FY 2007/08.

**Criteria**            State Contractors Manual (SAM), § 7.20, Prompt Payment Act and interest penalty fee under the Government Code (GC), § 927 et seq., state agencies which acquire property or services pursuant to a

contract with a business must pay that business for each complete delivered item of property or services within 45 days from the date set forth in the contract or, if no payment date is specified in the contract, submit a correct claim schedule to the State Controllers Office (SCO) within 30 calendar days after receipt of the undisputed invoice.

The California Prompt Payment Act, GC, § 927 et seq., requires state agencies to automatically calculate and pay the appropriate late payment penalties (as specified in SAM, § 8474.2) if they fail to pay properly submitted, undisputed invoices on the date required by the contract or specific grant, which shall not exceed 45 days; or if a payment date is not specified in the contract or specific grant,

- Recommendations**
- A** Internal Audits will make a recommendation that the person receiving Department mail, such as a designated mail person, date stamp the envelope and the invoice before placing it in ITSD's Administration Section's inbox for initial processing.
  - B** Vendors should be instructed that all invoices are to be brought to ITSD's Administration Section for date stamping and initial processing before the Project Manager receives it.
  - C** ITSD's Administration Section should continue to use an Invoice Tracking Spreadsheet, but it should be updated on a daily basis as part of the invoicing procedures that are already in place and reviewed weekly.
  - D** Ensure that all invoices are processed and forwarded to DHCS' Accounting Office within 15 calendar days.

## **RECONCILIATIONS**

**Finding 2** Reconciliations are not being performed.

**Condition** During the interview with ITSD's Administration Section staff, questions arose about how reconciliations were performed and about how the payment of invoices was tracked. A copy of a spreadsheet titled "Invoice Tracking For ITSD" was given, but the data entered into the spreadsheet had not been updated past August 2008 and contained incomplete transactions up to December 2008. The only way the section could identify which invoices were paid is if a search was performed through follow-up with the business submitting the invoice to obtain the Schedule Number and Date. The program could then verify payment from the SCO.

Before the Departmental split, the prior ITSD invoice processor and accountant had created a system of spreadsheets that were daily updated as Purchase Orders were received and processed. The spreadsheet was setup to categorize the reimbursements by the various sections within ITSD by index code. The spreadsheets could then be reconciled with CALSTARS and the Contract Files to verify payment had been made. It was acknowledged by the section that no reconciliations had been done following the split of the Department.

**Criteria**

SAM, § 7901, states the accuracy of an agency's accounting records may be proved partially by making certain reconciliations and verifications. Reconciliations must be completed between the agency accounts and the accounts maintained by the SCO to disclose errors as they occur. Corrections to errors should be made before financial reports are prepared to partially ensure the accuracy of an agency's financial reports. Properly prepared reconciliations also help to audit the agency's accounting records.

SAM, § 7908, states that all reconciliations will show the preparer's name, reviewer's name, date prepared, and date reviewed.

**Recommendations**    **E**    Reconciliations should be performed at least monthly for payment of invoices by ITSD's Administration Section between the Department internal spreadsheets and CALSTARS.

**F**    The spreadsheet system that was in place prior to the split should be reinstituted to monitor and track the progress of payments and completion of the reconciliations.

## **AUDITEE'S RESPONSE**




Department of Health Care Services  
**MEMORANDUM**

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**DATE:** April 8, 2009

**TO:** Thomas J. Rakela, C.F.E., Chief  
Internal Audits  
1500 Capitol Avenue, MS 2001

**FROM:** Mike Nguyen   
Deputy Director  
Information Technology Services Division  
1615 Capitol Avenue, MS 6000  
(916) 440-7340

**SUBJECT:** Responses to Audit Findings for the Information Technology Services Division

We have reviewed your memo dated March 30, 2009 that addresses two audit findings upon completion of your review of the contract monitoring procedures for the Information Technology Services Division's (ITSD) Administration Section (AS).

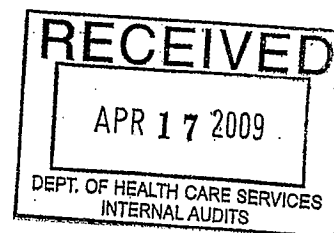
We appreciate your acknowledgement in the Executive Summary, that ITSD's AS exhibits strong program monitoring and fiscal management and that the AS has taken steps in improving the monitoring activities.

The ITSD's AS will continue to improve our current processes to ensure that we comply with all state policies, procedures, and regulations.

Attached are our responses to the audit findings and actions we are pursuing to resolve them.

Attachment

cc: Ruben Jimenez, Chief  
Administration Section  
Information Technology Services Division  
1615 Capitol Avenue, MS 6304



## RESPONSES TO FINDINGS

### **Finding 1**    Date Stamping and Late Processing of Invoices

The Information Technology Services Division (ITSD) agrees with the auditor's findings that a large number of invoices were not date stamped when received. The ITSD Administration Section (AS) has the responsibility of processing the invoices for payment. This process includes date stamping the invoices when they are received. The main reason that invoices are not stamped is that the contractors, whether it was out of convenience or the desire to speed up the payment process, would hand-deliver their companies' invoices directly to the ITSD contract manager. These invoices would not be received by the AS until after it was approved for payment and time has elapsed. It didn't seem proper to have a received date stamp that was later than the date the invoice was approved.

The contract managers within ITSD have been instructed to inform their contractors that they must send the invoices directly the AS as dictated on the executed purchase orders. The bill to address on all ITSD purchase orders is the AS. The AS will ensure that dates are stamped on every invoice received. This will also alleviate the difficulty in determining the exact amount of time that has lapsed in the payment process for the possibility of late fees being incurred.

A large factor of the late payments is in relation to the cash flow problems the department has encountered. Since the departmental split, this department has encountered cash flow issue as early as January in the fiscal year. The result of this delay has been a huge increase in late payment penalties being incurred.

### **Finding 2**    Reconciliations are not being performed

The ITSD agrees with the finding of the auditor that a reconciliation of invoices between the AS records and CALSTARS is not being done. The ITSD's AS prior to the department split had 12 staff performing the support functions for the Division of roughly 200 staff. After the split, the AS had only six staff performing the support functions of over 150 staff. Only five of the 200 executed purchase orders (PO) for ITSD were transferred to the new California Department of Public Health. The rest of the PO's remained with our department. We also went from having one full-time staff performing all the accounting functions to one half of a position. The lack of resources has had a big impact on our ability to perform the same functions as prior to the split.

The ITSD understands the importance of conducting at least a monthly reconciliation. The ITSD has gone through a contract conversion effort to eliminate the need for contractors. This along with reduction in spending has resulted in a lower volume of invoices. We are going to re-establish the process of conducting monthly reconciliations in the AS. We also intend to cross-train other staff to assist in this area should the volume increase due to the elimination of the current purchasing restrictions.



## **AUDITOR'S COMMENTS**

## **AUDITOR'S COMMENTS**

The Information Technology Services Division (ITSD) concurs with the two findings and recommendations contained in this report. Internal Audits recognizes and appreciates the diligent efforts made by the staff members of the areas under review following the departmental split into Department of Health Care Services and California Department of Public Health. ITSD has made significant changes to internal controls over the contracting processes and is continually strengthening those processes to accommodate the transition.